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Audit Report

ACCOUNTING FOR DEFENSE LOGISTICS AGENCY
SUPPLY MANAGEMENT RECEIVABLES

Report Number 98-116 April 20 1998

Office of the Inspector General
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Acronyms

DLA	Defense Logistics Agency
DBOF	Defense Business Operations Fund
DFAS	Defense Finance and Accounting Service
DISMS	Defense Integrated Subsistence Management System
PCH&T	Packaging, Crating and Handling, and Transportation
SAMMS	Standard Automated Materiel Management System
TAV	Total Asset Visibility

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

April 20, 1998

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on Accounting for Defense Logistics Agency Supply Management Receivables (Report No. 98-116)

We are providing this audit report for review and comment. The Director, Defense Finance and Accounting Service, and the Director, Defense Finance and Accounting Service Columbus Center, did not respond to the draft report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request that the Defense Finance and Accounting Service provide comments on Recommendations 1., 2., and 3., by June 22, 1998.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird, Audit Program Director, at (703) 604-9175 (DSN 664-9175) (e-mail: Rbird@dodig.osd.mil) or Mr. Byron B. Harbert, Audit Project Manager, at (303) 676-7405 (DSN 926-7405) (e-mail: Bharbert@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 98-116 **April 20, 1998**
(Project No. 5FD-2019.02)

Accounting for Defense Logistics Agency Supply Management Receivables

Executive Summary

Introduction. We identified the issue of accounting for Defense Logistics Agency supply management receivables during our audit of accounts receivable in the FY 1996 Defense Business Operations Fund financial statements (the accounts receivable audit). This is the second and final report of the accounts receivable audit. The first report addressed past due Federal accounts receivable and writing off debts owed by other Federal agencies. The accounts receivable audit was initiated to support the Chief Financial Officers Act of 1990 (Public Law 101-576, November 15, 1990), as amended by the Federal Financial Management Act of 1994 (Public Law 103-356, October 13, 1994). We issued a disclaimer of opinion on the FY 1996 Defense Business Operations Fund financial statements in Inspector General, DoD, Report No. 97-178, "Internal Controls and Compliance with Laws and Regulations for the Defense Business Operations Fund Consolidated Financial Statements for FY 1996," June 26, 1997.

The Defense Logistics Agency reported $975 million of the $7.3 billion in accounts receivable reported in the FY 1996 Defense Business Operations Fund consolidated financial statements. Of the $975 million, $494 million pertained to the supply management business area.

On December 11, 1996, the Under Secretary of Defense (Comptroller) announced that the Defense Business Operations Fund would be segregated into five separate working capital funds, one of which would be the Defense-Wide Working Capital Fund for Defense agencies that would be managed by the Defense Logistics Agency. That realignment does not affect the issues discussed in this report.

Audit Objectives. Our objective was to determine whether the accounts receivable on the FY 1996 Defense Business Operations Fund consolidated financial statements were presented fairly in accordance with the "other comprehensive basis of accounting" described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. For this part of the audit, we determined whether Defense Logistics Agency supply management receivables were accurately accounted for, classified, and reported in the Statement of Financial Position. In addition, we reviewed the management control program as it applied to the overall audit objective.

Audit Results. The Defense Finance and Accounting Service did not accurately account for over $418 million in Defense Logistics Agency supply management receivables. Specifically—

o Defense Finance and Accounting Service personnel did not accurately post the transactions required to record up to $335 million in refunds due from Defense Logistics

Agency contractors. Of that $335 million, a $209 million write-off was not disclosed in the notes to the Defense Business Operations Fund Consolidated Statement of Financial Position. In addition, over $10.8 million in interest, penalties, and administrative charges was not accrued and disclosed in the financial statements related to the $335 million in refunds.

o Receivables in excess of $72 million were not accurately accounted for and reported in the consolidated statement of financial position. Over $45 million of the $72 million was billable and required immediate collection.

As a result, the Defense Logistic Agency FY 1996 Defense Business Operations Fund financial statements were materially misstated, and the notes to the principal statements did not accurately disclose key financial information. If they are not corrected, future financial statements will continue to be materially misstated. See Part I for a discussion of the audit results, and Appendix A for a discussion of the management control program.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service, establish procedures to properly account for debts at the Debt Management Office and to record debts in all accounting and numbering systems that are required by the U.S. Standard General Ledger. We recommend that the Director, Defense Finance and Accounting Service Columbus Center, direct the Stock Fund Accounting and Payments Directorate to bill the DoD organizations owing the Defense Personnel Support Center $45 million in transportation costs for the shipment of subsistence items overseas.

Management Comments. The Defense Finance and Accounting Service did not comment a draft of this report. We request the Defense Finance and Accounting Service provide comments on the final report by June 22, 1998.

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Part I - Audit Results

Audit Background

Introduction. We identified the issue of accounting for Defense Logistics Agency (DLA) supply management business area receivables during our audit of accounts receivable in the FY 1996 Defense Business Operations Fund (DBOF) financial statements. The DLA reported $975 million of the $7.3 billion in accounts receivable reported in the FY 1996 DBOF consolidated financial statements. Of the $975 million, $494 million pertained to the Supply Management business area. This is the second and final report addressing accounts receivable. The first report addressed past due Federal accounts receivable and the write-off of Federal debt.

This audit was initiated to support the Chief Financial Officers Act of 1990 (Public Law 101-576, November 15, 1990), as amended by the Federal Financial Management Act of 1994 (Public Law 103-356, October 13, 1994).

In December 1996, the Office of the Under Secretary of Defense announced that the DBOF would be realigned into five working capital funds, one of which would be the Defense-Wide Working Capital Fund for Defense agencies that would be managed by DLA. That realignment will not affect the issues raised in this report.

Audit Criteria. The Office of the Under Secretary of Defense (Comptroller) issued DoD Regulation 7000.14-R, "DoD Financial Management Regulation," under the authority of DoD Instruction 7000.14, "DoD Financial Management Policy and Procedures," November 15, 1992. DoD 7000.14-R establishes and enforces the principles, standards, systems, procedures, and practices necessary to comply with DoD financial management regulations.

The volumes of DoD Regulation 7000.14-R applicable to DBOF and to this report included, Volume 1, "General Financial Management Information, Systems, and Requirements," May 1993; Volume 4, "Accounting Policy and Procedures," January 1995; Volume 10, "Contract Payment Policy and Procedures," February 1996; and Volume 11B, "Reimbursable Operations, Policy and Procedures — Defense Business Operations Fund," December 1994.

United States Standard General Ledger. The Federal Financial Management Improvement Act of 1996 requires Federal agencies to use the U.S. Standard General Ledger at the transaction level for the fiscal year ending September 30, 1997. The DoD Standard General Ledger complied with the U.S. Standard General Ledger at the summary account level. The DoD Standard General Ledger includes general ledger accounts for assets, such as refund and claims receivable, that were necessary for DoD financial management oversight and accountability but that were not included in the U.S. Standard General Ledger. The DoD Standard General Ledger account numbers were not used in accordance with the numbering system of the U.S. Standard General Ledger.

Office of the Under Secretary of Defense (Comptroller) and Defense Finance and Accounting Service (DFAS) officials have recognized the differences and have taken steps to correct the numbering.

Accounting Organizations. The Stock Fund Accounting and Payments Directorate (the Directorate), DFAS Columbus Center, provides financial and accounting services to the stock fund organizations within the DLA supply management business area. As of September 30, 1996, DFAS reported $71.9 million in claims receivables for DLA supply management organizations. Those organizations included the Defense Construction Supply Center, Defense Electronics Supply Center, Defense Fuel Supply Center, Defense Industrial Supply Center, and the Defense Personnel Support Center. The Agency Reporting Branch of the Accounting Division at the DFAS Columbus Center consolidates the financial data submitted by the Stock Fund Accounting and Payments Directorate in the monthly and annual financial statements.

The DFAS Columbus Center also contains the Debt Management Office, which was responsible for collecting over $335 million in past due contractor debts that were owed to DLA supply management organizations. Each month, the Debt Management Office prepared and submitted a report to the Agency Reporting Branch, which disclosed the beginning and ending month balances of debts. The Agency Reporting Branch recorded the ending balance in the DLA supply management monthly and annual consolidated financial statements.

Audit Objectives

The overall objective was to determine whether accounts receivable on the FY 1996 DBOF consolidated financial statements were presented fairly in accordance with the "other comprehensive basis of accounting" described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. We determined whether DLA supply management receivables were accurately accounted for, classified, and reported in the Statement of Financial Position. In addition, we reviewed the management control program as it applied to the overall audit objective. See Appendix A for a discussion of the audit scope, methodology, management control program, and prior audit coverage.

Accounting for Receivables

The DFAS Columbus Center did not accurately account for $418 million in accounts receivable of the DLA supply management business area. Of that amount, DFAS did not post the transactions required for recording up to $335 million in refunds receivable due from DLA contractors, and did not post over $10.8 million in receivables from accrued interest, penalties, and administrative charges applicable to past-due contractor debts. An additional $45 million of accounts receivable and $26.9 million of refunds receivable were improperly recorded and reported as claims receivable. Over $324,000 in accounts payable was incorrectly accounted for as a contra account to accounts receivable. Those accounting deficiencies existed because DFAS did not implement the requirements of DoD Regulation 7000.14-R. The accounting requirements included:

o The use of the DoD Standard General Ledger and instructions for posting receivable-related transactions;

o The use of the allowance method for recording bad debt expense and for reporting the net realizable value of receivables in the principle statements, and explaining material events in the accompanying notes; and,

o The accrual of interest, penalties and administrative charges on past due receivables and use of the allowance method for reporting the net realizable value of amounts accrued.

As a result, the DLA FY 1996 DBOF financial statements were materially misstated, and the notes to the principle statements did not accurately disclose key financial information. If they are not corrected, future financial statements will continue to be materially misstated.

Refunds Receivable

Contractor Debt. The DFAS Columbus Center did not post the transactions required by DoD Regulation 7000.14-R, Volume 4, Chapter 3, and Volume 11b, Chapter 54, to accurately account for up to $335 million in refunds due from contractors during FY 1996. DFAS did not maintain a complete general ledger that allowed personnel to post the transactions that were required to accurately account for the debts that were transferred to the Debt Management Office for collection. DFAS Columbus Center maintained only a partial record of the debts transferred to the Debt Management Office in the official accounting records.

General Ledger. The DFAS Directorate accounting systems did not have a complete general ledger to post write-offs for uncollectible accounts using the allowance method. The allowance method matches the losses that are expected to be incurred in a particular period against the revenues for the same

period. In some instances, DFAS Columbus Center did not record the receivable and subsequent write-off when the debt was posted in the official accounting records, and DFAS was later notified that a collection had been transferred to the Debt Management Office. In other instances, when the debt was recorded in the official accounting records, DFAS Columbus Center wrote the loss off in the period that the debt was transferred to the Debt Management Office for collection. The allowance method provides financial managers with a more accurate picture of financial operations and a more timely recovery of losses of bad debts by matching current-year estimated losses to revenues for inclusion in the applicable surcharge rates. To illustrate, the DLA supply management consolidated accounting report for November 1995 should have disclosed a balance of $335 million in refunds receivable recorded in the Debt Management Office inventory. However, the November 1995 consolidated accounting report disclosed a balance of only $50 million. The difference of $285 million was the amount of debt owed by vendors that had filed for bankruptcy. Under the allowance method, the November 1995 consolidated accounting report should have disclosed gross receivables of $335 million and an allowance for loss on accounts receivable of $285 million.

Official Accounting Records. The Directorate did not maintain the official accounting records for the debts administered by the Debt Management Office in accordance with DoD Regulation 7000.14-R, Volume 10. The Chief of the Accounting Division within the Directorate stated that the DFAS Columbus Center complied with the intent of DoD Regulation 7000.14-R. However, the DFAS Columbus Center did not have general ledger accounting controls over each of the debts within the Debt Management Office. Instead, the DFAS Columbus Center relied on a consolidated report that summarized the net change in the Debt Management Office monthly balances. The consolidated report was prepared using a Debt Management Office monthly statistical report and was not prepared in accordance with DoD Regulation 7000.14-R, Volume 4

The Directorate did not have the official accounting records that it needed to reconcile general ledger account balances with subsidiary records. DFAS Columbus Center personnel did not post the individual transactions that were required to record new debts, to reverse previous refunds determined to be invalid, and to write off debts. Instead, when the Debt Management Office reported a net increase in debt, the Agency Reporting Branch posted a transaction that increased the "Claims Receivable" balance and increased the "Other Income" account by the change in the debt inventory balance. When the Debt Management Office reported a decrease, the transaction was reversed. The transaction affecting the "Other Income" account was incorrect because overpayments made to contractors (refunds due to erroneous payments) were not income. To accurately record the transaction, DFAS Columbus Center personnel must identify the purchase or expense account that was originally increased when the erroneous payment was made and reduce the purchase or expense account for the amount collected on the debt.

FY 1996 Financial Statement Accounting and Disclosure. The DFAS Columbus Center did not accurately account for and disclose DLA events affecting up to $335 million in refunds receivable. The FY 1996 financial statements should have disclosed an accounts receivable line of $113 million as of September 30, 1996, and disclosed in Note 5 of the statements an allowance

for loss on accounts receivable of $209 million. Instead, the DFAS Columbus Center reported an accounts receivable line of $43 million. The balance of the $335 million, $13 million was incorrectly recorded when personnel did not post transactions totaling $8.9 million to reverse invalid receivables and when personnel erroneously posted $3.7 million in cash receipts as cash collections instead of reversing the disbursement made in the original transaction.

Interest Receivable

Accrued Interest. The DFAS Columbus Center did not accrue or record in accounting records the interest, penalties, and administrative charges on the $335 million in contractor debt reported by the Debt Management Office. DoD Regulation 7000.14-R, Volume 4, Chapter 3, requires the DFAS Columbus Center to accrue interest, administrative charges, and penalties on past-due refunds owed to the U.S. Government. Therefore, those accruals should have been recorded in an interest receivable general ledger account. An allowance for loss on the interest receivable was also required similar to the allowance for losses on accounts receivable. In FY 1996, the Debt Management Office proposed a systems change to accrue interest, administrative charges, and penalties to bring the Defense Debt Management System into compliance with DoD Regulation 7000.14-R. However, the accounting system change order was not implemented because of other system priorities established by DFAS Headquarters. As a result, over $10.8 million of interest receivable was not accrued or reported to the DFAS Directorate for recording in the accounting records.

DLA Stock Fund Receivables

DoD Standard General Ledger Chart of Accounts. As of September 30, 1996, the DFAS Columbus Center Directorate reported approximately $82 million in DLA receivables. The receivables were accounted for using the DLA general ledger, which did not meet the requirements of either the U.S. Standard General Ledger or the DoD Standard General Ledger. Figures 1 and 2 compare the DLA and DoD charts of account structure.

Account No.	Account Title
115	Accounts Receivable - Government - Current
117*	Accounts Receivable - Total Asset Visibility
119	Accounts Receivable - Public - Current
155	Claims Receivable

* Contra-asset account. An account that decreases the related general ledger asset account balance, such as an allowance for loss on accounts receivable that reduces the receivable balance to its net realizable value.

Figure 1. DLA Chart of Accounts for Receivables

Account No.	Account Title
1311	Accounts Receivable - Government - Current
1312	Accounts Receivable - Government - Noncurrent
1313	Accounts Receivable - Public - Current
1314	Accounts Receivable - Public - Noncurrent
1315	Refunds Receivable - Government
1316	Refunds Receivable - Public
1319*	Allowance for Loss on Accounts Receivable - Government
1319.1*	Allowance for Loss on Accounts Receivable - Government
1319.2*	Allowance for Loss on Accounts Receivable - Public
1320	Claims Receivable
1340	Interest Receivable
1349*	Allowance for Loss on Interest Receivable

* For contra-asset accounts see Figure 1 explanation.

Figure 2. DoD Chart of Accounts for Receivables

The DoD Standard General Ledger chart of accounts (Figure 2) included accounts not separately used in the DLA Chart of Accounts (Figure 1). In particular, the DLA general ledger did not distinguish between claims and refunds receivable.

Claims Receivable versus Refunds Receivable. DoD accounting policy defines claims and refunds receivable as separate and distinct classes of receivable.

o Claims receivable represents amounts owed by commercial carriers for damages to and losses in shipments of items through the fault of the carrier. Claims receivable also includes amounts owed by individuals as a result of loss, damage, and destruction of Government property.

o Refunds receivable represents amounts owed by other Government organizations, and private sources (for example, contractors or vendors) because of erroneous payments and unliquidated advances.

DFAS Stock Fund Accounting. In June 1989, DLA initiated a systems change request to incorporate the DoD standard general ledger into the Standard Automated Materiel Management System (SAMMS). However, the systems change was not implemented. The SAMMS is the principal accounting system for the DLA Supply Management business area. Consequently, DLA receivables continued to be commingled, and separate subsidiary records did not exist for refunds receivable. The Chief of the Accounting Division, Stock Fund Accounting and Payments Directorate, considered the interim measures described below:

> Currently, collections for overpayments are recorded in Account 155, contractor claims. However, since we do not have a refunds receivable account, the associated collection is recorded as a reverse disbursement and the claim is deleted. For the present we prefer to continue recording overpayments in account 155 and to annotate the amount in our narrative and our quarterly report, accounts receivable due from the public. This is the simplest method and would provide the needed information. In an effort to correct this problem in the general ledger, we will put a systems change request to establish account 119.900, accounts receivable - other. We thought of using 119.999, which is normally used for transactions that cannot be routed to the right subaccount. This, however, is clumsy, manual and would impact numerous accounts.

The interim measures and temporary systems changes could be labor intensive and still not comply with the DoD Regulation 7000.14-R requirements. Converting SAMMS to the DoD Standard General Ledger is the only viable alternative to expeditiously correct the problems with receivables.

Asset Classification. The DFAS Columbus Center incorrectly classified accounts receivable due from other Government agencies in the Defense Integrated Subsistence Management System (DISMS) and other DLA supply management accounting systems. In addition, the DFAS Columbus Center did not record accounts payable arising from packaging, crating and handling, and transportation (PCH&T) costs to other Government agencies incurred by the Total Asset Visibility (TAV) program.

o **DISMS.** Of the $82 million in DLA supply management receivables reported, $50 million was attributed to the Defense Personnel Support Center Subsistence stock fund. Of the $50 million, over $45 million was misclassified as claims receivable instead of receivables from Government agencies. The Defense Personnel Support Center Subsistence stock fund was owed the $45 million by other DoD organizations to reimburse the stock fund for the cost of overseas transportation of subsistence. According to the Chief of the Accounts Receivable Branch, the $45 million was billable, and the billings were past due. The receivables that were misclassified as claims receivable hindered the collection of the accounts because the laws governing the collection of an accounts receivable from a Government agency differ from the laws governing collection of accounts receivable from commercial carriers, vendors, and individuals. Collections of accounts receivable from Government agencies are governed by the Economy Act (Title 31, United States Code, Section 1535), which requires Government agencies to pay their debts. The laws governing

debts owed by the public provide for writing off debt and other provisions, such as bankruptcy. Consequently, the $45 million of receivables from other DoD organizations that were improperly classified as claims receivable from the public resulted in those receivables not being billed and collected.

o **Other DLA Supply Management Stock Funds.** Approximately $32 million of the $82 million balance could be attributed to the classification of refunds as claims receivable within the other Stock Fund accounting systems, such as the SAMMS and Defense Fuel Automated Management System. Proper classification of the receivables within the general ledger account structure of those systems is needed to ensure that account balances are correct and reconcilable through subsidiary records.

o **TAV Program.** Over $324,000 in PCH&T costs were recorded as a contra account to accounts receivable in the DFAS accounting records. The DLA owed the Air Force Retail Stock Fund the PCH&T costs incurred after DLA item managers ordered materiel shipped from Air Force retail stores to other locations. Although DLA owed the Air Force Retail Stock Fund the PCH&T costs, the correct method for accounting for the reimbursement should have been to record the costs as an accounts payable. Recording the PCH&T as a contra account to receivables understated the total assets and liabilities by $324,000 in the Statement of Financial Position. Although the TAV program was relatively small in FY 1996 (6 locations), it is expected to expand to a total of 232 locations worldwide and, consequently, will have a far greater impact on the understatement of assets and liabilities in the future if accounting problems go uncorrected.

Summary

The DFAS Columbus Center did not accurately account for accounts receivable, did not accurately report and fully disclose the status of receivables in the DLA FY 1996 DBOF financial statements, did not properly classify receivables, and did not take action to bill and collect $45 million of receivables from Government agencies. The DFAS Columbus Center was unable to properly account for receivables because it had not fully implemented the DoD Standard General Ledger in accounting systems and had not established needed subsidiary records.

Recommendations for Management Comments

1. We recommend that the Director, Defense Finance and Accounting Service establish procedures to implement the provisions of DoD Regulation 7000.14-R, "DoD Financial Management Regulation," for accounts receivable at the Defense Finance Accounting Service Columbus Center. Those provisions include:

a. maintaining the official accounting records for debts transferred to the Debt Management Office for collection;

b. accruing and recording interest, penalty, and administrative charges on past due accounts;

c. establishing the allowances for loss on accounts and interest receivable;

d. properly classifying accounts;

e. establishing subsidiary records; and

f. reconciling general ledger account balances with the subsidiary records.

2. We recommend the Director, Defense Finance and Accounting Service, implement the DoD Standard General Ledger in all applicable accounting systems and the numbering system required by the U.S. Standard General Ledger in accordance with the Federal Financial Management Improvement Act of 1996.

3. We recommend that the Director, Defense Finance and Accounting Service Columbus Center, direct the Stock Fund Accounting and Payments Directorate to bill the $45 million in past due receivables for reimbursing the Defense Personnel Support Center for the overseas transportation cost of subsistence items.

Recommendations for Management Comments

The Defense Finance and Accounting Service did not comment on a draft of this report. We request that the Defense Finance and Accounting Service provide comments on the final report.

Part II - Additional Information

Appendix A. Audit Process

Scope

We reviewed DFAS Columbus Center accounting policies and procedures for DLA supply management receivables in conjunction with the audit of accounts receivable in the FY 1996 DBOF financial statements (the accounts receivable audit). As part of the accounts receivable audit, we examined the DFAS Columbus Center Directorate accounting policies and procedures for over $427 million in DLA supply management receivables for the period October 1, 1995 through September 30, 1996. The DoD Regulation 7000.14-R Volumes 1, 4, 10 and 11b provided the criteria used in that examination and included a review of the general ledger accounts and subsidiary records for the SAMMS, the Defense Integrated Subsistence Management System, and the Defense Fuel Automated Management System. We specifically examined procedures for determining whether past-due accounts that were transferred to the DFAS Columbus Center Debt Management Office were maintained in the official accounting records, that general ledger and subsidiary ledger accounts were periodically reconciled, and that losses on bad accounts were estimated and written off using the allowance method.

Methodology

Audit Work Performed. We evaluated the DFAS Columbus Center accounting system general ledger and procedures affecting receivables for the DLA Supply Management Business Area. We contacted personnel from the DLA Comptroller and DFAS Columbus Center to review the existing procedures. Discussions with personnel from the Stock Fund Accounting and Payments Directorate, Accounting Directorate, and Debt Management Office at the DFAS Columbus Center provided information about the accounting reports and procedures used to record and disclose receivable balances of debts transferred to the Debt Management Office for collection.

Audit Type, Period, and Standards. We performed this financial-related audit from May 1995 through September 1997, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

Use of Computer-Processed Data. We used automated listings of contractor debts in the possession of the Debt Management Office and related reports and trial balance information from the Stock Fund Accounting and Payments Directorate. We did not evaluate the general and application controls of the Debt Management Office and Stock Fund Accounting and Payments Directorate systems that processed the data, although we relied on data produced by those systems to conduct the audit. We did not evaluate the controls because the

accuracy of the data was not a principal concern at the time of audit. However, not evaluating the controls did not affect the results of the audit.

Contacts During the Audit. We visited or contacted individuals and organizations within the DoD. Further details are available upon request.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. We reviewed the adequacy of the DFAS Columbus Center management control program as it

related to the transfer of DLA supply management receivables to the Debt Management Office for collection and the reconciliation of general ledger Columbus Center accounting policies and procedures complied with DoD Regulation 7000.14-R for the implementation of the DoD Standard General Ledger; accrual of interest, administrative charges, and penalties on past due accounts; and estimation of losses on bad debts and write-offs using the allowance method.

Adequacy of Management Controls. We identified a material management control weakness as defined by DoD Directive 5010.38. Management controls at the DFAS, Columbus Center, were not adequate to accurately account for and disclose financial events affecting DLA supply management receivables transferred to the Debt Management Office for collection. This weakness is material at the DFAS level. Recommendation 1., if implemented, will ensure the accurate and full disclosure of financial events affecting past-due contractor debts (valued at $335 million in FY 1996). Recommendation 3., if implemented, will ensure the collection of $45 million in past-due accounts receivable from DoD organizations for the overseas transportation of subsistence. A copy of the report will be provided to the senior official responsible for DFAS management control program.

Adequacy of Management's Self-Evaluation at DFAS. DFAS officials identified the Stock Fund Accounting and Payments Directorate and Debt Management Office as assessable units in the current management control program. However, DFAS officials did not correlate tests to determine whether the DLA supply management past-due accounts that were transferred to the Debt Management Office were reconciled for accuracy and completeness. As a result, DFAS officials did not identify the material management control weakness.

Summary of Prior Coverage

Audit Report No. 97-178, "Internal Controls and Compliance with Laws and Regulations for the Defense Business Operations Fund Consolidated Financial Statements for FY 1996," June 26, 1997. We were unable to render an opinion on the FY 1996 DBOF consolidated financial statements because of deficiencies in the internal control structure and compliance with laws and regulations. As a result, the financial position of DBOF could not be determined or presented in a fair and timely fashion.

Appendix B. Report Distribution

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Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Inspector General for Auditing, DoD.

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